

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57567; File No. SR-Phlx-2008-25)

March 26, 2008

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Implementation of Phase II of the Penny Pilot Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 20, 2008, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Phlx. The Exchange has designated this proposal as one constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule under Section 19(b)(3)(A)(i) of the Act³ and Rule 19b-4(f)(1) thereunder,⁴ which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Phlx proposes to implement Phase II of a pilot program (the “pilot”) that permits certain options series to be quoted and traded in increments of \$0.01. Phase II will include all options included in the current pilot, together with additional options, as described more fully below. Phase II of the pilot (“Phase II”) will extend through March 27, 2009.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(i).

⁴ 17 CFR 240.19b-4(f)(1).

The text of the proposed rule change is available on the Exchange's Web site (<http://www.Phlx.com/exchange/phlx-rule-fil.htm>), at the Phlx, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to implement Phase II of the pilot. The Exchange believes that including additional options to the pilot should provide greater breadth and depth of experience in quoting and trading options series in increments of \$0.01, and should therefore enable the Exchange and the Commission to better analyze the impact of the pilot on the options marketplace.

All series in options included in the pilot trading at a price of less than \$3.00 are currently quoted and traded in minimum increments of \$0.01, and pilot options with a price of \$3.00 or higher are currently quoted and traded in minimum increments of \$0.05, except that options overlying the PowerShares QQQ Trust ("QQQQ") are quoted and traded in minimum increments of \$0.01 for all series regardless of the price.

The pilot began on January 26, 2007,⁵ was thereafter extended through September 27, 2007,⁶ and was then extended and expanded to include additional options.⁷ Phase I of the expansion, which began on September 28, 2007, added 22 options that are among the most actively traded, multiply-listed options based on average daily volume, and together with the original 13 options in the initial pilot, represented approximately 35% of the total industry volume. A list of all pilot options was communicated to membership via Exchange circular for the initial pilot and for Phase I.

The Exchange now proposes to implement Phase II of the expansion. Phase II will begin March 28, 2008, and will extend for one year, through March 27, 2009. Phase II will add 28 options to the pilot, bringing the total number of options included in the pilot to 63. An Exchange Circular, attached as Exhibit 2 to the proposed rule change, identifies these additional underlying securities.⁸

Again, all penny options in Phase II will trade in \$0.01 increments in series trading below \$3.00, and in \$0.05 increments in series trading at \$3.00 and above. Options on QQQQ will continue to trade in increments of \$0.01 for all series.

⁵ See Securities Exchange Act Release No. 55153 (January 23, 2007), 72 FR 4553 (January 31, 2007) (SR-Phlx-2006-74). In that filing, the Exchange also made conforming amendments to various Exchange rules in order to be consistent with the pilot.

⁶ See Securities Exchange Act Release No. 56141 (July 24, 2007), 72 FR 42216 (August 1, 2007) (SR-Phlx-2007-53).

⁷ See Securities Exchange Act Release No. 56563 (September 27, 2007), 72 FR 56429 (October 3, 2007) (SR-Phlx-2007-62).

⁸ The Exchange Circular attached as Exhibit 2 to the proposal contained an inaccurate date. The Exchange has represented that it will correct this inaccuracy before the Exchange Circular is circulated. Telephone conversation between Richard Rudolph, Vice President and Counsel, Phlx, and Jennifer Colihan, Special Counsel, Division of Trading and Markets, Commission, on March 26, 2008.

